

California Bond Buyer Pre-Conference

California Debt and Investment Advisory Commission

Revealing OPEB In Your Financials: Where the Rubber Meets the Road



Benefit Obligation BondsSM

Facilitating the Transition to ARC Funding

September 25, 2006

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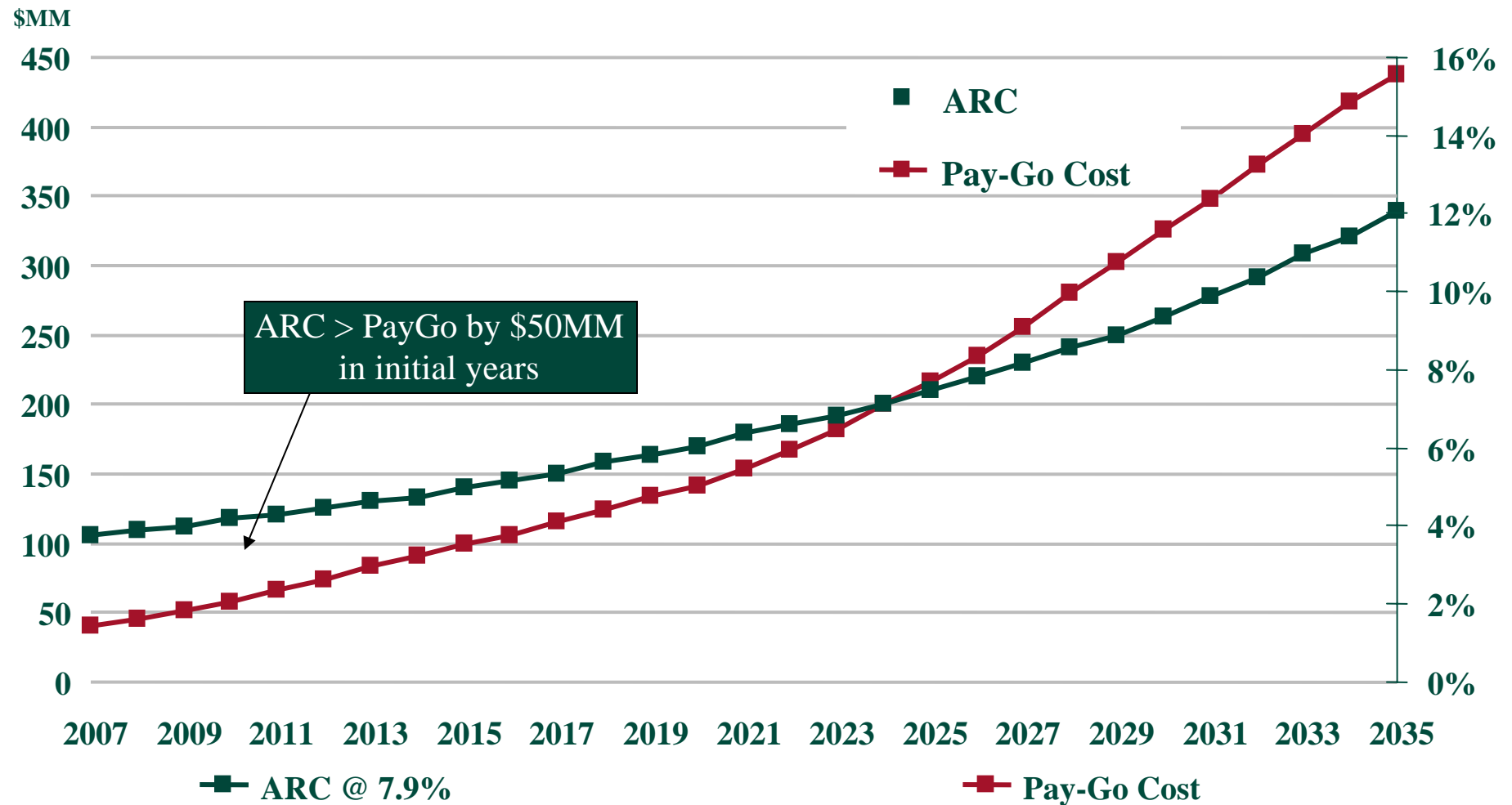
OPEB: It's All About Shape

- ◆ Generally, actuaries use two methods to amortize UAALs:

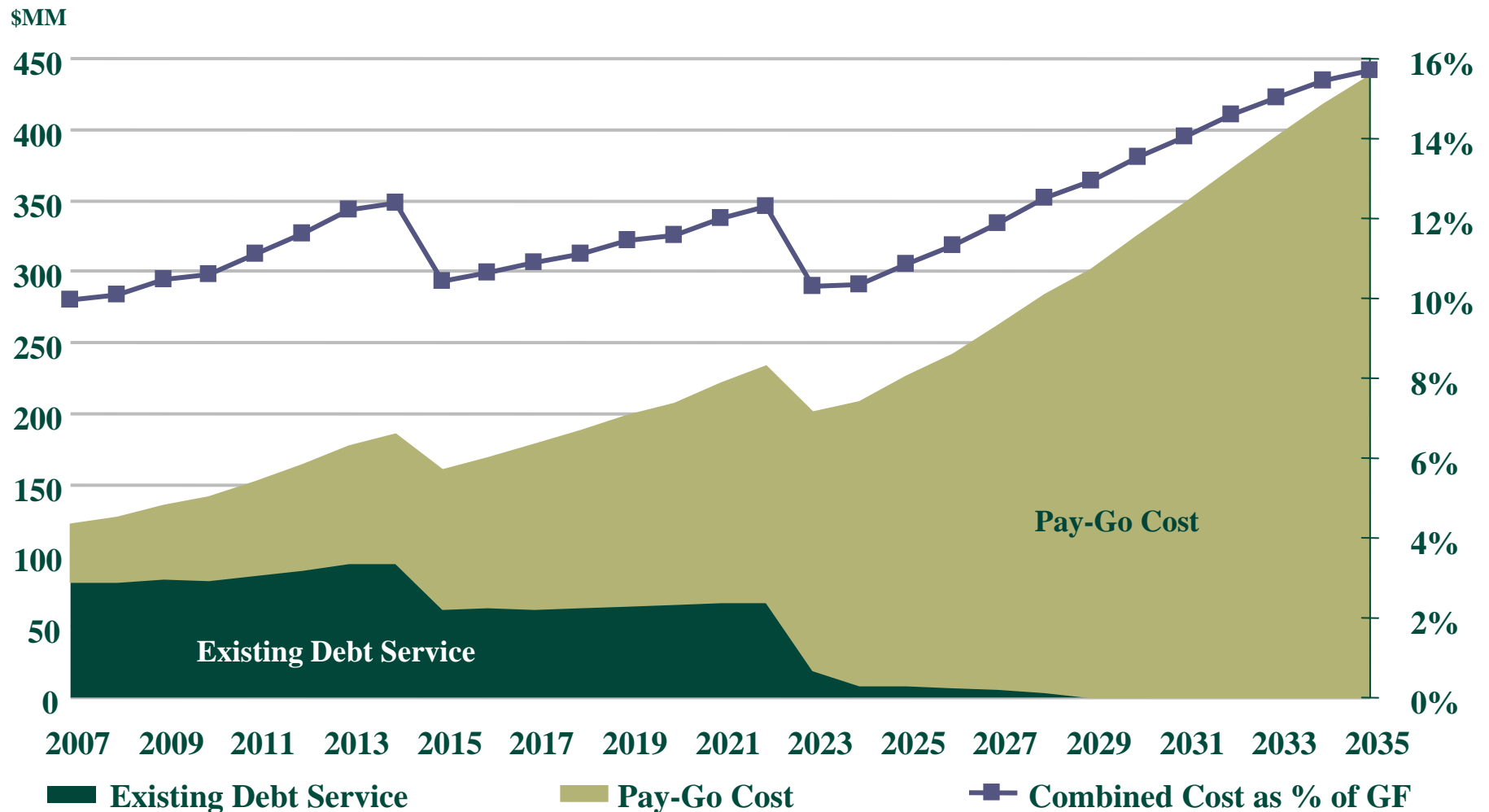


- ◆ GASB limits UAAL amortization horizon to 30 yrs, irrespective of workforce demographics and Americans' increasing longevity
- ◆ GASB# 45 and actuaries address OPEB in a vacuum
 - no accounting for other issuer liabilities/constraints
- ◆ Layering OPEB on top of existing budget commitments is likely to create acute fiscal strain

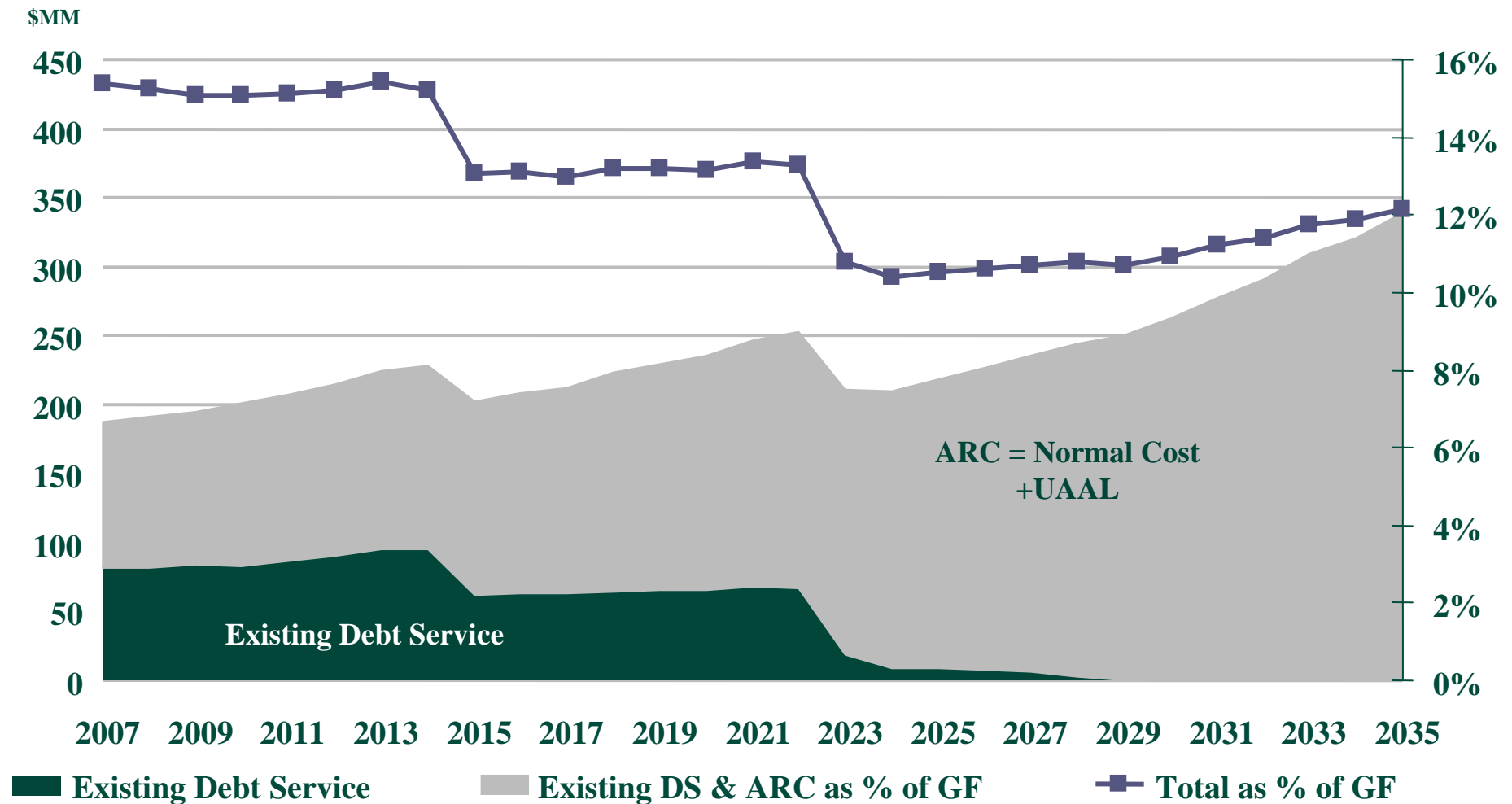
Representative ARC vs. Pay-Go Cashflow



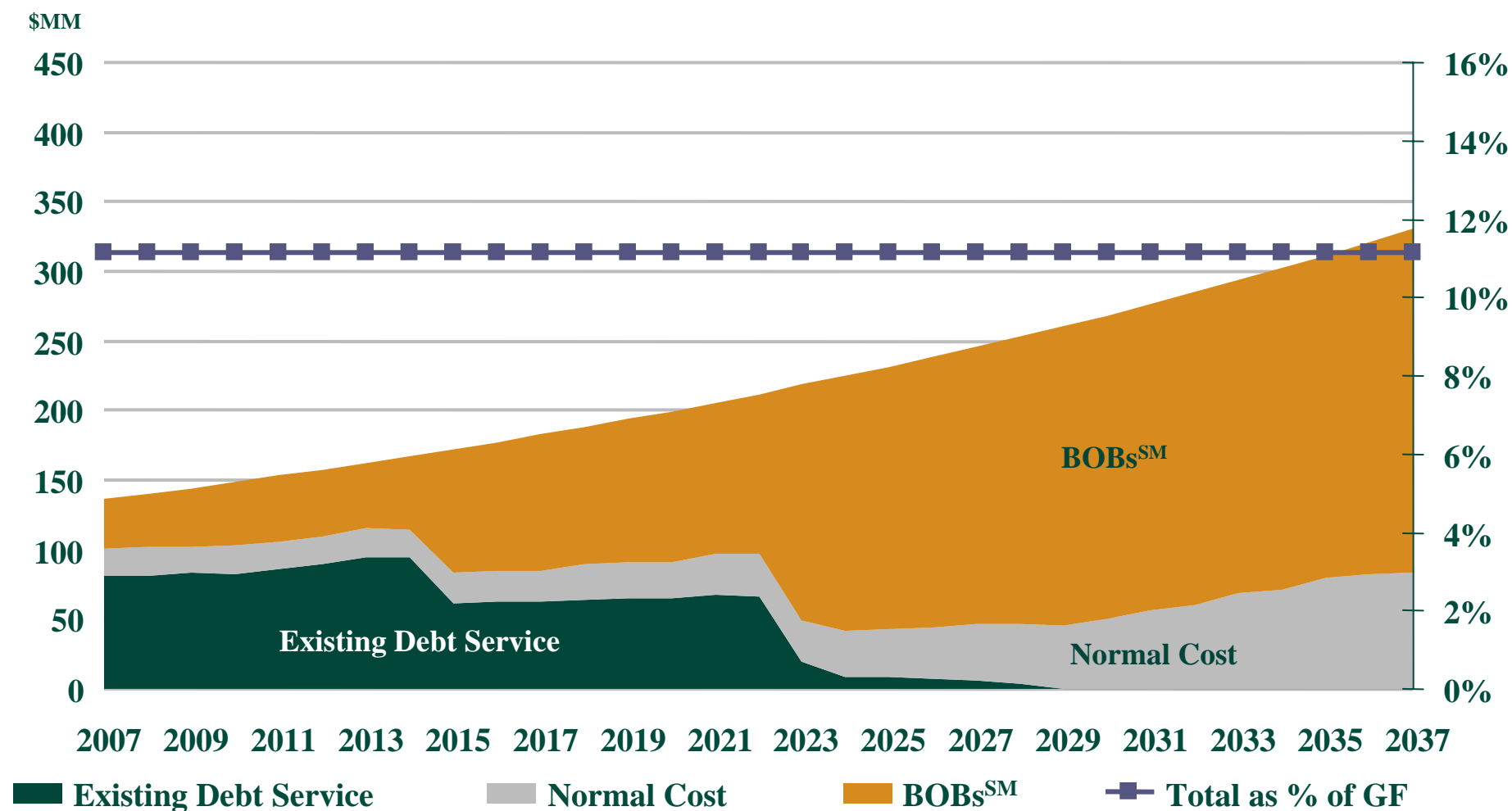
Looking at the Whole Budget Picture: Pay-Go Scenario



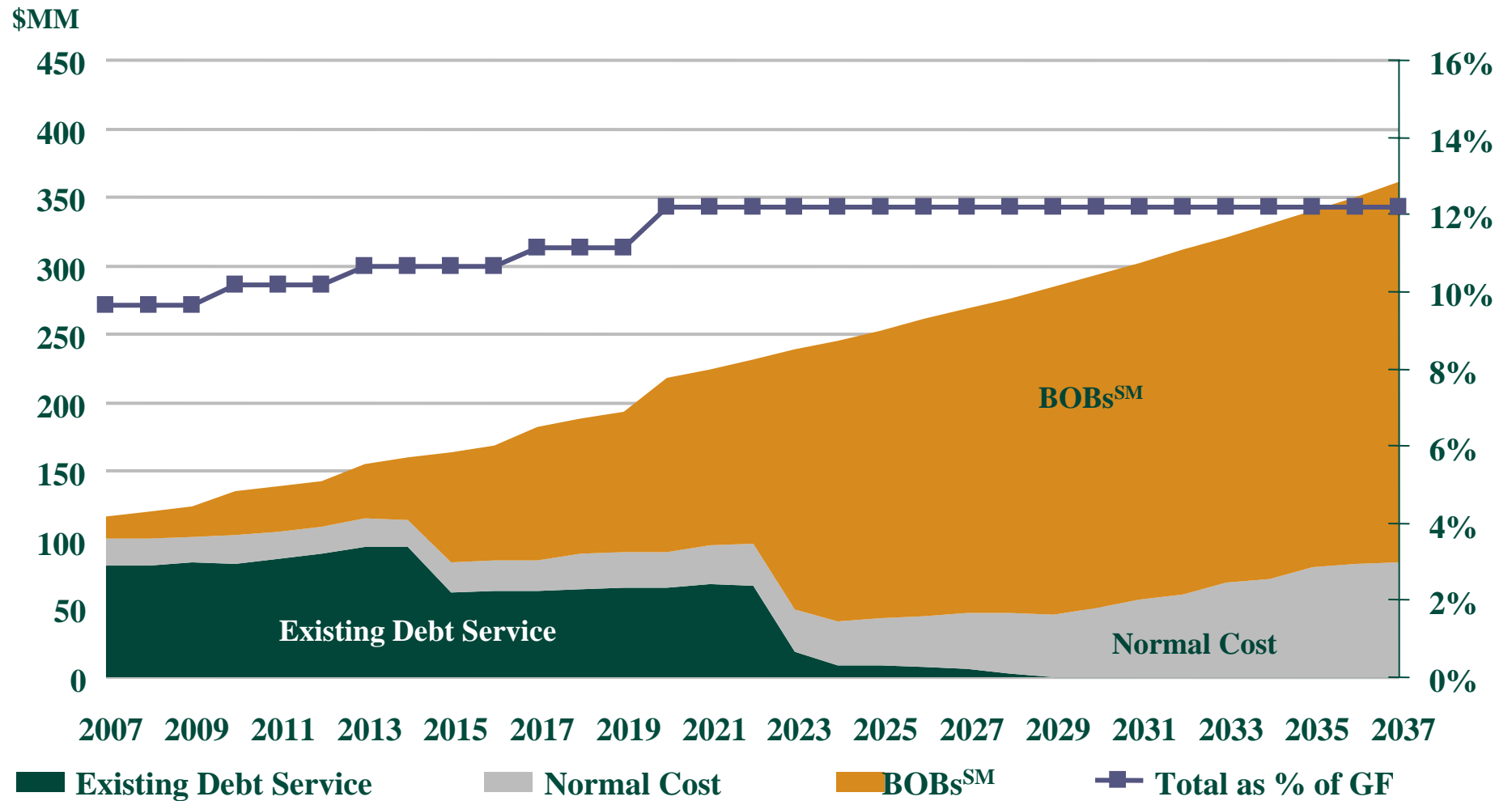
Transition to ARC Exacerbates Budget Pain



BOBsSM Enable Issuers to Reshape UAAL Amortization



Easing into Level % of Budget



Conclusion

- ◆ The OPEB Tsunami is coming
 - Demographic wave is a fact of life
- ◆ BOBsSM are not a panacea to the benefit tidal wave but do offer a useful tool for managing these UAALs
- ◆ Primary benefits of BOBsSM are the discounting rule advantages of prefunding and the reshaping opportunities
- ◆ BOBsSM present similar benefit/risks as POBs, although reinvestment issues seem greater given prevailing near-zero funding ratios

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Robert Larkins Biography

Robert Larkins, Managing Director at Lehman Brothers, San Francisco. Rob has worked in the Public Finance industry for twenty-one years and joined Lehman Brothers' Public Finance practice in 2003, after working for fifteen years at Morgan Stanley. Rob's public finance experience includes a wide array of project financings, credit structures, and fixed income products including auction rate securities, commercial paper, taxable bonds and derivatives. In addition to his core practice of California counties and local governments, Rob has focused specifically on Pension Obligation Bonds for over a decade. Rob has completed over 40 POBs including the cities of Fresno (1994 and 2002), Long Beach, Pasadena (1999 and 2004), Eugene, Oregon, Milwaukee, Wisconsin, Houston, Texas, the State of Kansas and the Oregon School Boards Association, as well as the California counties of Contra Costa (1994 and 2003), Imperial, Kern, Los Angeles (1994 and 1995), Marin, Mendocino, Merced, Sacramento (1995, 2003 and 2004), San Diego (1995 and 2002), San Luis Obispo, Solano, Sonoma, Tulare, Riverside, the Sacramento Metropolitan Fire District, and the Contra Costa County Fire District. Currently, he is co-heading Lehman Brother's efforts in the emerging OPEB sector, and in December he senior managed the largest OPEB issue to date, a \$153 million issue for Peralta Community College District. Rob is a graduate of Stanford University where he was elected to Phi Beta Kappa.